KPMG Peat Marwick Stevenson & Kellogg
Management Consultants

Peat Marwick Thorne
Chartered Accountants

Project Report

BRITISH COLUMBIA FINANCIAL REVIEW: THE ISSUE OF GOVERNMENT SERVICES

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Executive Summary—Government Services

This report reviews the services provided to government by government agencies including B.C. Buildings Corporation, B.C. Systems Corporation, and the Purchasing Commission. The data available to demonstrate the comparative cost-efficiency of these agencies are not conclusive. Further, cost and quality performance standards which are accepted by clients, providers and Treasury Board do not exist. As a result, final decisions on efficiency and effectiveness cannot be reached.

The report concludes that:

- While the concept of agencies providing goods and services to captive markets is reasonable, implementation has been inefficient in some cases.

- Treasury Board, not the agencies providing the services to government, should take responsibility for the government's overall strategy and standards for these services.

- Steps should be taken to resolve the uncertainty about the efficiency and effectiveness of the present systems and removing sources of client dissatisfaction. If this cannot be attained in a reasonable period, then efficiency could be increased by allowing ministries to purchase services from the lowest public or private sector bidder. In such circumstances, centralized providers may not be required.

The report recommends that:

- Treasury Board and its staff should be assigned clear responsibility for developing and enforcing policy on overall space usage by government throughout the province.

- A central government agency should develop and enforce an information system strategy for government and provide direction to ministries and to BCSC to better manage government's expenditure of over $250 million on information systems and related services.

- The policy and standard setting activities for the purchase of government goods and services should be separated from the supply function currently carried out by the Purchasing Commission. In addition, the operating structures for the commission should be examined to ensure that it provides best value for money.

- Steps should be taken to avoid the emergence of a parallel and separate building management capacity by branches, ministries and other Crown agencies like the Provincial Rental Housing Corporation.

The Issue of Government Services

A. Introduction

1. Primary and subsidiary issues

The government of British Columbia is a major user of office space and information systems and services. It also purchases thousands of other items each year, from motor vehicles to uniforms to office supplies. Rather than buying these services and goods on the open market, it has set up powerful agencies to do this and has arranged the rules so that they have virtual monopolies. A fundamental question facing government is whether it receives value for money when it is a captive market for its own services.

But setting the specific standards by which to assess these procurement agencies is itself a complex task. This is not just a matter of cost for there are aspects of quality to consider as well. Examined from the perspective of this financial review, the assessment must include consideration of how well the present system shapes decisions about strategic directions and the demand for space and information systems equipment. Cost, quality and demand in turn all contribute to the general efficiency and effectiveness of the government.

One set of issues arises when a government agency provides services that the private sector could also have provided. Are government-delivered services preferable to private sector services? The two entities most directly involved in the delivery of specific services are:

- B.C. Buildings Corporation.
- B.C. Systems Corporation.

A second set of issues concerns whether government as a whole benefits where the procurement of services from the private sector is coordinated by a single government agency, instead of each government ministry being responsible for its own procurement. In other words, all things being equal, are procurement costs minimized if responsibility is centralized? The major entity involved in this area is the Purchasing Commission.

Each of these entities is described and key issues discussed.

B. British Columbia Buildings Corporation

1. Description

The British Columbia Buildings Corporation (BCBC) was created in 1977/78 to be the sole provider of accommodation and property management services to the ministries of the provincial government. According to its enabling legislation (the British Columbia Buildings Corporation Act), the purpose of the corporation is "to serve as an agency of the Crown in providing land and buildings for accommodation of ministries of government and agents, corporate or otherwise, of the Crown lease or license or any other arrangement for the use and occupation of the accommodation."

Although BCBC has a monopoly right to provide accommodation and property management services to all the ministries of the government, this right is not contained in the corporation's enabling legislation. BCBC also has the authority to provide these services to other entities within the government (e.g., other Crown corporations, Riverview Mental Health Society, the B.C. Assessment Authority, and the B.C. Legislature Building), but it does not have the exclusive monopoly right to do so.

Other components of the rationale for the creation of BCBC were to make the ministries more accountable for their space requirements and costs and to achieve economies of scale through better coordination of total government space requirements.

The creation of a Crown corporation to provide accommodation services has allowed the government to calculate and report on its investment in buildings and land through the balance sheet of BCBC. Previously, the Ministry of Highways and Public Works expensed all expenditures on buildings and land. When BCBC was established, one of its first tasks was to actually create an inventory of existing assets in order to manage the portfolio of building assets from a corporate-wide perspective and to generate more detailed financial statements.

Approximately 80 per cent of BCBC's revenues come from charges to the various client ministries. The remainder accrues from non-ministry government organizations (e.g., BCSC, B.C. Mental Health Society) as well as the provision of accommodation to highway maintenance contractors.

2. Recent history

In line with its corporate vision, BCBC has been increasingly emphasizing the quality of the service it provides. Nevertheless, it also has a role as a central watchdog of the public purse and the public interest. Clearly, these two perspectives can and do conflict sharply. The orientation of the corporation's Board of Directors is thought to be still very much one of protecting the interests of the shareholder. However, this role is being de-emphasized. BCBC believes that

Treasury Board is the real protector of the taxpayer's interest in this area. Thus it believes Treasury Board is the agency to set standards and approve or reject specific space use proposals and the costs involved.

BCBC's basic business can be categorized into the following three dimensions:

- **Portfolio management** of the Crown's accommodation assets and leases.
- Provision of **building operational services** (e.g., maintenance, cleaning).
- Provision of **project management services** with respect to building construction projects and tenant improvements.

In total, BCBC owns, leases or maintains 3,500 buildings (approximately 2.1 million square metres of space) on behalf of its clients. It is government policy that any change in accommodation costs exceeding $150,000 per annum requires Treasury Board approval. As a result, one of the primary checks on BCBC is that no new leasing or construction activity can take place without Treasury Board approval of the client ministries' plans.

3. BCBC rate calculations

BCBC's clientele consists of the 18 government ministries, other public sector organizations and a limited number of private sector tenants.

To recover the costs stemming from the provision of services, BCBC charges its clients rent based on the type of facility occupied, as outlined below. In each case, in addition to the rent, BCBC passes through to its clients the costs of operations, maintenance, energy and property taxes.

- For facilities leased from private sector companies, BCBC passes on the costs of the lease plus a mark-up. Accordingly, if BCBC is able to negotiate a rent-free period as an inducement to lease up a facility, the client ministry receives the full benefit.
- For facilities that are owned by BCBC for which there are comparable market-based facilities, BCBC employs independent real estate appraisers to determine the fair rent to be charged. Examples of facilities for which market-based comparisons are used to establish rents include owned offices, court houses, and warehouses. If the client ministry disputes the determination of the rent, it may employ its own appraiser and use those findings to appeal to Treasury Board. If the client is successful in its challenge, BCBC reimburses it for the costs of the appraiser; if unsuccessful, the client ministry bears the cost. Two or

three challenges were undertaken in the early 1980s but none have been undertaken since that time.

- For special purpose properties with no directly comparable facilities but which possess some market characteristics (e.g., ambulance stations, forest complexes, highway complexes), the current market value of the land plus the cost to replace the facility are considered in determining the rent. Similar investment properties comparable in location and use are examined to determine the ratio of rent to value, which is then used as a guide to determine the annual rent, which is then marked-up by BCBC.

- For institutional properties (e.g., correctional facilities, certain health care facilities), for which no market-based comparables exist, rent is determined as the sum of the amortization of the original construction or acquisition cost and the costs of subsequent improvements amortized over the useful life of the facility, at the average cost of long-term debt plus the cost of the land which is also based on the corporation's average cost of long-term debt.

The corporation's operating income margin is one of the measures that it uses to compare itself to private sector companies and where applicable and appropriate, to comparable government organizations elsewhere in Canada (particularly Quebec). This is one of the key measures that the corporation uses to assess its performance.

BCBC has recently created a Benchmark Committee consisting of BCBC, Treasury Board and client staff, from both the clients' head and field offices, to establish a process whereby BCBC can measure how well it does in meeting its client expectations. Possible performance measures might include how long it takes to respond to an approved requisition, how much administrative burden is being required of the clients, how many clients would choose to contract with another supplier if provided the opportunity to do so, how long it takes to answer the phone, how long it takes to return phone calls, etc.

Once this committee's work is completed and implemented, it should be possible to more accurately measure the quality of BCBC's performance, and it may be possible to assess the benefits of this structure compared to alternative structures.

4. Issues

a) Contribution to restraint

With respect to the issue of whether and how BCBC might be able to contribute to an overall restraint program within the government, BCBC is largely unable to make substantial reductions in the short term. By the nature of its business, the corporation makes a number of medium and long-term fixed commitments, such as leases and financings. Accordingly, the

government is contractually obligated for the majority (approximately two-thirds) of BCBC's costs. Essentially, significant savings could be generated in the short term only by reducing service levels and by shedding space. On the latter, BCBC could waive its six-month notice requirement, thus allowing ministries to vacate their excess space immediately, and then endeavour to dispose of the vacant properties.

To save costs over the medium and long term, the same means can be used, i.e., lowering service levels and reducing the space requirements. In contrast to the short term, the savings are more likely to be substantial. In either the short or long term, such moves cannot be made apart from a consideration of what they will mean for program delivery.

The issue of how BCBC can contribute to a restraint program is currently being addressed in discussions between the corporation's President and the Deputy Minister of Finance and Corporate Relations.

b) Use of a Crown corporation vehicle

This issue is whether organizing the provision of accommodation and property management services under the auspices of a Crown corporation has led to more efficient and more effective delivery of services. In the view of BCBC senior management, it clearly has done so. The approach of using a Crown corporation has been a model for other provincial governments to study and in the cases of Saskatchewan and Quebec, to emulate. Further, it has been studied by various foreign governments.

Although BCBC management is unable to document its view in a rigorous fashion, it believes that the use of a vehicle which is fairly autonomous of normal government processes allows the taxpayer to save at least $25 million per annum. The imputed savings stem from the Crown corporation's ability to operate efficiently and in a business-like manner, as a result of the discipline imposed by its external market, and its ability to exploit in an entrepreneurial fashion a number of related opportunities (such as provision of energy management services and selling of its core services to other public sector organizations).

c) Pricing policies

The formula used to determine prices charged to the client ministries was described above. The issue here is how responsibly BCBC is acting as an unregulated monopoly in the provision of its services. There is an appeal process available to client ministries concerned about space charges from BCBC. If BCBC's costs are found to be overstated, there is no appeal cost involved. At the same time, BCBC compares its financial performance to the comparable performance of private sector organizations to evaluate its rates of return.

One aspect of this issue is whether or not, because it operates outside the normal government budgeting process, BCBC is required to operate in as efficient a fashion as its client ministries. Management's view is that this is not an issue because its clients are regularly instructed by Treasury Board to reduce their accommodation costs. It regularly compares its performance to comparable private sector performance in an effort to ensure that it is not operating inefficiently. Further, not all the discretion in the relationship between BCBC and its client ministries rests in the hands of the corporation, as:

- Treasury Board and BCBC processes actually regulate the relationship. There is a client panel in place to negotiate the Accommodation Agreement between BCBC and its clients. In cases of proposal calls for new construction or leasing space, the client ministries ultimately make the decision and take their recommended option to Treasury Board. BCBC's role is to provide comments and suggestions and to make recommendations "in the government's overall best interests."

- The corporation is currently planning a pilot test of a ministry/client group opting out of the monopoly provision of accommodation services from the corporation. Specifically, the Queen's Printer is to provide selected operating and maintenance services (e.g., janitorial services but not asset maintenance) for a two-year period with the cooperation and expertise of BCBC. If this pilot project indicates that savings are achieved and therefore the client ministries should be given more discretion in their management of the accommodation function, it is anticipated that BCBC will relax its monopoly position. Other ministries are considering pilot projects.

c) Government space standards

Another issue is whether client ministries are directed by BCBC not only about the amount of space they could occupy, but also the exact configuration of the space. Historically, the corporation worked in conjunction with its clients to develop space standards, such as employee qualifications for office space or for work station screens, how large the office would be, and the number and size of meeting rooms. The process was quite detailed and had been approved by Treasury Board.

A number of clients were unhappy about being told who was to get an office and what the layout of each floor was to be. Accordingly, approximately two years ago, it was agreed with Treasury Board and Ministry staff that while government-wide standards would establish the amount of space that a particular ministry would receive, the clients would be able to configure that space on their own. The clients could determine, for example, who was to receive an office, how many meeting rooms were to be created, where they were to be located, and the size of individual offices. Frequently, the original

BCBC standards are still employed, but modified slightly to reflect the nuances of a particular client.

5. Conclusions and recommendations

In general, the BCBC has contributed to an overall improvement in the management of provincial government space requirements. Feedback from clients indicates general satisfaction with the service. Of course, there are exceptions. Concern has been expressed by some clients that space costs are too high. However, conclusive information to support this has not been available. Some ministries believe that while BCBC has been able to reduce lease costs by centralizing negotiations, it has been less efficient in the negotiation of operations and maintenance services purchased from private suppliers.

There is considerable skepticism among its client ministries that BCBC will be successful in making itself more responsive and service-oriented. Ministry discontent is probably inherent in the lack of choice about dealing with BCBC. This raises the issue of the preferred future means of satisfying space requirements. A fully efficient BCBC able to satisfy its clients at reasonable cost is the most desirable solution. This has not yet happened, and the prospect of a fragmented and more costly system rife with duplication is increasingly possible. A fundamental decision on future direction is required.

There is, of course, also the issue of how well true costs are calculated and reported. This underlines the very real difficulty of merging a fully "cost-recovering" and dividend-generating BCBC with client ministries that do not operate in an environment where true service or transaction costs are known or allocated to specific cost centres.

The monopoly relationship between BCBC and most of its clients is regulated, in part, by Treasury Board which must approve requests by clients for new space. Treasury Board has also agreed to allow individual ministries to decide how they use space, within the total allocation. However, it is our sense that Treasury Board staff's emphasis has been on controlling immediate costs and not on the larger issue of space requirement planning, the analysis of overall ministry space use and the impact of special design and office use on organizational efficiency.

While we have not examined the issue closely, it is our perception that the Province has a much larger number of separate offices, often used by the same ministry in different locations in the same town or city, than is optimal. A quick review indicates 55 separate provincial offices in one small city and 60 in another. We believe consolidation and reduction of offices may be in order and could well produce administrative savings, with an increase in efficiency.

However, this perspective is not congenial to many ministries. BCBC is in the space provision and servicing business, and Treasury Board has no clear strategic framework to optimize or mitigate overall space use and costs. So while BCBC

may be reasonably efficient at responding to ministry space leasing requests in a cost-efficient manner, neither it nor Treasury Board has been analyzing and managing overall space utilization in a way that fully supports the new deficit reduction objectives.

The lack of a government-wide strategy may result in higher costs over time. The movement of organizations between government-owned or leased facilities combined with the ministry's ability to modify the "style" of accommodation could result in a higher level of space modification costs than might otherwise occur. The impact of this Treasury Board policy change should also be examined.

There are areas of the government's space management that could be improved. At the moment BCBC/ministry debates about cost and quality are based more on perceptions than on hard and generally accepted analysis.

If, as a result of pilot projects now underway, BCBC loosens its present monopoly, there is a possibility of a parallel property management system emerging comprised of ministries managing more and more of their own space needs with their own staff.

BCBC should be encouraged to resolve the present frictions between itself and its client ministries within a reasonable period. This should be done within an overall space utilization review conducted by Treasury Board, leading to space consolidation and a government-wide plan for space use. This plan should set specific cost and quality standards for BCBC. BCBC would be directed to achieve this plan.

If this is not done, the optimal long-term solution for providing office space is to empower ministries to operate a cost-accounting structure and based on their actual costs to contract with BCBC or with a private-sector vendor for comparable space and service at a lower cost over the full life of the lease.

C. British Columbia Systems Corporation

1. Introduction

The British Columbia Systems Corporation (BCSC) is included in this report because it provides direct services to other government entities, but not on a monopoly basis.

2. Description

The mandate of the British Columbia Systems Corporation is "to advance the effective and efficient use of information systems in the British Columbia public sector." As a service organization within government, BCSC provides shared

computer processing, data and voice communication, information access and selected professional services on a competitive basis.

The corporation generated revenue of $151 million in 1990/91 with 805 full-time employees. Ninety-six percent of the revenue comes from government ministries and the remaining 4 per cent from other government entities.

The corporation's major services are:

- Telecommunication products and services ($68 million)—In 1988 BCSC took over responsibility for managing the government's telephone network and added some $45 million to its annual revenue base. The management of large province-wide voice and data networks enables BCSC to move toward its objective of developing integrated services as well as the development and enhancement of information access services.

- Data processing ($52 million)—The central processing complex, available on a 24-hour, seven-day-per-week basis, is the primary repository for government data. Increasingly customers are installing personal computers and local area networks to complement the functions of the central processing complex.

- Professional services ($30 million)—BCSC provides professional services teams to public sector clients who require information systems management and technical skills. Technical application and training support services are provided to clients throughout the province, often in concert with private sector partners of BCSC.

- Information access services ($1 million)—BC OnLine has grown to become the government's "data utility" for all electronic databases. Several databases are accessed through BC OnLine, which also provides online deposit capability for government and other subscribers with respect to government services.

BCSC competes for government business and estimates it currently has about 50 per cent of it. The choice of service provider rests with the various ministries, and BCSC prepares in excess of 40 bids or tenders annually to supply additional services.

3. Recent history

In 1984 the monopoly position originally granted to BCSC was removed as part of the government's policy to contract more work to the private sector. This was reinforced in 1985 when the corporation's mandate was changed to remove its control function and instructed to operate as a competitive service provider. The control function was moved to Treasury Board staff.

In subsequent years this control function was moved to a new central agency, the Office of Information Technology (OIT), which assumed responsibility for government-wide technology planning and information systems, and telecommunications strategy and policy. Because it was not considered to be achieving its objectives, OIT was disbanded in 1991. Most of the control role reverted to Treasury Board staff and the remainder to BCSC.

In 1985 the operation of BCSC's IBM-based information processing facilities were transferred to an employee-owned private company, Hi-Tech Systems Ltd. (HTS). These services continue to be provided to BCSC under a facilities management contract with HTS which expires in September 1992. BCSC is contingently liable for certain HTS employee termination costs if BCSC does not renew the contract.

In 1986, the government agreed to make an annual contribution of $3.8 million to offset the excessive debt servicing charges and an operating shortfall on the corporation's headquarters building. This subsidy reduces BCSC's cost base, thus allowing it to set more competitive rates. It is expected to continue well into the future.

4. Issues

As noted earlier, the issues raised in this document address the specific services available to government ministries. The focus is on the quasi-monopoly status of the corporation.

a) Telecommunications and data processing

These two services account for $120 million or 79 per cent of the BCSC revenue. The corporation has claimed a $2-$3 million annual savings to government in the telecommunication area since it took over responsibility in 1988. While this may be accurate, we were not in a position to verify this estimate nor could we determine the "value-for-money" aspects of the provision of these services. A key factor is the absence of a well defined, government-wide strategy for information management (including telecommunications). Such a strategy would serve as a template for gauging the nature and quality of BCSC services.

b) Quasi-monopoly status

The BCSC does not have a monopoly on the services it offers to government. In fact, it only serves an estimated 50 per cent of ministries. However, the ease of access and natural linkage to BCSC, particularly in those ministries where the Director of Systems is a BCSC contractor, provides a significant advantage. Further, by contracting with BCSC for other professionals, ministries can avoid using their FTEs on systems personnel. These two factors are significant advantages in marketing BCSC services and potentially could outweigh the issue of cost.

c) Professional services

This service area accounts for $30 million, or 20 per cent of BCSC revenues. Corporation officials estimate that this revenue figure will increase by 50 per cent over the next few years through the provision of a broader range of services to an expanded client base. As indicated in Exhibit 1, the corporation has 350.6 FTEs in 24 ministries and agencies. In 14 of these organizations, accounting for 72 per cent of the total person-years, the Director of Systems is also a BCSC employee.

Discussions with client organizations suggest that they are generally satisfied with the quality of BCSC staff. This confirms a client survey conducted by the corporation. The same survey indicates that 51 per cent of clients felt that the corporation provided "fairly good" value for money (a further 38 per cent were neutral). In our ministry interviews, management acknowledged that they were not in a good position to judge, and in some instances they speculated that it might be less expensive to have their own ministry staff. The issue was partly a matter of rates (ministries pay 1.5 times the individual's salary). However, the issue of staff numbers seemed to be of greater importance. The concern expressed by ministry officials revolved around their ability to forecast the skills and the number of systems staff required to meet their needs. In essence, senior managers are not skilled in this technical area and feel less able to judge the appropriateness of systems staff levels than the levels of other areas of the ministry.

The fact that a number of systems directors are also BCSC employees puts the corporation in a conflict situation. They are, to a degree, both the buyers and sellers of services. This situation may be affecting the overall cost of systems in the B.C. government and the value-for-money being received by individual ministries. Furthermore, in the absence of an official government-wide information technology strategy, this approach may unduly influence the overall direction and use of information technology in government.

While the corporation estimates 50 per cent growth of this service area, we have been advised that at least one major client is actively pursuing the option of buying services from the private sector as the potential for savings is perceived to be significant. It is not clear how BCSC will amend its growth and major equipment acquisition plans to reflect the loss of such a major customer.

The distribution of BCSC systems directors and professional service staff by Ministry is shown below.

Exhibit 1
BCSC seconded personnel

Ministries and Agencies	FTEs	BCSC Director of Systems
Aboriginal Affairs	1	Yes
Advanced Education, Training and Technology	3	
Agriculture, Fisheries and Food	2	Yes
Attorney General (L.D.B.)	53.8	Yes
Attorney General (M.V.B.)	10	
Energy, Mines and Petroleum Resources	3	Yes
Economic Development Small Business & Trade	9	
Education	2	Yes
Environment, Lands and Parks	17	Yes(2)
Finance: Corporate Relations	11	Yes
Finance: O.C.G. & Provincial Treasury	10	
Finance: Revenue Division	6	Yes
Forests	58	Yes
Government Services	7	
Health	47.8	
Labour & Consumer Services	2	
Municipal Affairs, Recreation & Housing	7	Yes
Securities Commission	5	Yes
Social Services	51.6	Yes
Superannuation	2	Yes
Tourism and Culture	2	
Trade Development Corporation	0.6	
Transportation and Highways	34	Yes
Workers' Compensation Board	6	
Total	350.6	14

d) Professional service rates

The rates for the professional services provided by BCSC are 1.5 times the base salary of the individual. The rate is calculated as follows:

Base salary	1.00
Benefits	0.21
Recruiting, training and development	0.18
General management, finance and administration	0.10
Other costs	0.02
Total	1.51

The rate structure used by BCSC appears reasonable in that the corporation must include overhead costs as part of the rates. If a ministry maintained its own systems personnel, it would probably have the same, or a similar, cost structure. It would also incur some incremental costs for training and development. It is reasonable to expect that the incremental cost to a ministry to hire a full-time systems person would be 1.25 to 1.4 times base salary, but, it is also reasonable to expect that the average salary levels of systems personnel in ministries would be lower than their counterparts in BCSC. Therefore, from a ministry perspective, there is a question surrounding the need to pay a premium rate for what, in effect, are full-time ministry employees.

e) Asset acquisitions

The corporation's five-year plan indicates asset acquisitions of about $166 million in the next three years in relation to a net aggregate income of $45.4 million, including the government subsidy of $11.4 million. Revenue growth is forecast at $43.4 million or about 40 per cent above 1990/91 levels. Most of this growth is expected from professional services at 50 per cent and 30 per cent for technology services.

While there is a need to maintain its technology infrastructure as well as service the expected growth, the details of this major acquisition program should be designed to ensure that it is consistent with a government-wide strategy for information processing and the associated technical architecture. Furthermore, the major area of growth in professional services does not place a significant demand on the technology infrastructure, which, based on the acquisition plan, contains funding to effectively replace the present processing environment each year for the next three years. The relationship between the revenue growth plans and the asset acquisition plans may need to be more closely drawn.

5. Conclusions and recommendations

The most significant factor that has given rise to the aforementioned issues is the absence of a government-wide information systems strategy that sets out the role and direction for a central systems organization as well as delineating the roles and responsibilities of ministries. Government spends in excess of $250 million annually on information systems and related costs. While we have not carried out a detailed study to determine whether value-for-money has been obtained, we are aware of instances of problems caused by incompatible systems, delays and cost overruns in large systems development projects, and significant year-over-year increases in operating costs. While this in no way suggests that BCSC bears any responsibility for these concerns, it does point to a significant lack of central coordination and strategy. Further, weaknesses in the control over FTEs promote the hiring of external staff at a premium rather than employing full-time ministry staff, perhaps at a lower average cost. The FTE issue can be resolved through a revision to the rules dealing with "permanent" contract staff and the way in which these positions are included in the overall ministry and government FTE count.

The broader issues around the relative systems roles of BCSC and ministries, along with the manner in which the specific needs are determined and fulfilled, should be dealt with in a manner consistent with a comprehensive government information management strategy. In the short term, ministries should be required to move towards employing their own systems directors. BCSC would then be in a position of supplying "consultants" when needed to meet a ministry's special projects or extraordinary requirements, which is consistent with BCSC's plan for professional services. This approach would provide ministries with a core of dedicated staff, subject to the same controls as all other staff, and would give them the flexibility of sourcing additional resources from either BCSC or the private sector on the basis of need.

The larger issue is whether the government has been receiving the best value for the money spent. We are unable to answer that question as the data are apparently not available, but average personnel costs could be expected to be lower if they are carried on ministry establishments.

Finally, BCSC's role in influencing user requirements should be modified to occur in a context in which a central agency such as Treasury Board stipulates an overall systems strategy, framework and technology infrastructure designed to meet the government-wide requirements of the ministries. Customer involvement in this process, suitably coordinated by a central agency is a critical component for ensuring that government obtains its information technology needs in a cost-effective manner and BCSC plays an appropriate role in the delivery mechanism.

D. The Purchasing Commission

1. Description

The Purchasing Commission has eight major activities. The first four activities are mandated or directed. Government ministries are required by law or by Treasury Board directive to use the Purchasing Commission for those services. Some Crown corporations and other public sector bodies elect, for a fee, to make use of the Purchasing Commission services.

Exhibit 2
Purchasing Commission procurement and supply programs

	Supply
Mandated or Directed Programs	
Purchasing and Supplier Development	
Vehicle Management Services	
Queen's Printer	✓
Warehousing and Asset Investment Recovery	
Non-mandated Programs	
Government Air Services	✓
Postal and Distribution Services	
Office Products Centre	✓
Product Distribution Centre	✓

The last four activities are not mandated. Ministries are not obliged to use Purchasing Commission services, but most choose to do so. The question to be studied is whether the Purchasing Commission provides a price advantage, or whether ministries use the Purchasing Commission, despite a price penalty, for reasons of convenience or habit. A lesser, but important, issue is whether the Purchasing Commission should provide a purchasing policy framework and deal with issues of probity, while at the same time providing goods and services to client ministries and agencies.

In the case of all eight services, the responsibility for procuring the goods and services encompassed by the programs is centralized in the Purchasing Commission. In addition, the Purchasing Commission itself provides direct services to government in the case of:

Queen's Printer
Government Air Services
Office Products Centre

Product Distribution Centre.

The following paragraphs briefly describe the eight programs.

a) Purchasing and Supplier Development Services (PSD)

PSD acquires goods and selected services on behalf of all ministries, and several crown corporations and public agencies. The unit is headquartered in Victoria, with satellite supply development/customer liaison offices in downtown Vancouver and Kamloops. FTEs total 52. Total annual acquisitions on behalf of customers in 1991/92 are expected to exceed $400 million. PSD walks the fine line between using the competitive process in purchasing, designing and implementing supply and development programs, and using government purchasing power to enhance economic development in British Columbia.

b) Vehicle Management Services (VMS)

VMS was established in 1984 to consolidate vehicle services then fragmented among individual ministries. The program manages the government's light vehicle fleet, including provision of mechanical maintenance by private sector centres, development of vehicle standards and policy, coordination of government vehicle purchases, and management of contracts for daily and monthly vehicle rentals.

c) Queen's Printer (QP)

The QP provides for the in-plant printing requirement of the Legislative Assembly and for the confidential printing of other government ministries, representing approximately 30 per cent of total government printing activity. The balance is contracted to the private sector. The QP also markets and distributes publications on behalf of some ministries where it is felt the private sector provides an inadequate return to ministries.

d) Warehousing and Asset Investment Recovery (WAIR)

WAIR provides consolidated warehousing services, for a fee, to government ministries. The program also re-allocates assets such as furniture and industrial equipment among ministries and sells surplus assets on behalf of government and some Crown corporations.

e) Government Air Services (GAS)

GAS provides air transportation services required by government, some air ambulance services required by the Ministry of Health, and makes aircraft available for emergency response such as mine rescue services and support for the Provincial Emergency Program. This includes operating a government

fleet of six aircraft and chartering equipment from the private sector when required.

f) Postal and Distribution Services (PDS)

PDS provides mail pick-up and processing for ministries and some government-funded agencies. The unit operates a house mail system for government ministry offices located throughout the province, shipping mail as freight rather than as individual letters or parcels. The unit also provides bulk mail preparation services, or contracts to the private sector when this is more economical. As well, the unit coordinates household moves for employees who are being relocated.

g) Office Products Centre (OPC)

OPC buys commonly used stationery and office products in bulk, supplying in smaller quantities to ministries and some other public agencies. Large volume orders are shipped directly from suppliers to customers. The centre provides storage and distribution services for government-wide forms and forms used within some ministries and provides protocol giftware items for visiting dignitaries.

h) Product Distribution Centre (PDC)

PDC is a supply warehouse, located in Port Coquitlam, carrying inventories of pharmaceuticals, medical supplies, surgical equipment, janitorial supplies, uniforms and selected other products. Health institutions provide approximately 70 per cent of the PDCs sales. Other bulk users are other government ministries, Crown corporations and municipalities.

2. Government policies

The policies of the provincial government are implied in the Purchasing Commission Act, which identifies the following duties of the commission:

a) To acquire supplies required in the public service of the province, including public institutions.

b) To direct the establishment, maintenance and operation of depots or warehouses.

c) To furnish advice and assistance to the government ministries and public institutions to the end that supplies of the most advantageous and suitable type on an economical basis may be utilized.

d) To supervise and control the distribution of supplies.

e) To create and arrange opportunities for public institutions to acquire supplies and services at rates and on terms and conditions conducive to the economic well-being of the province.

f) In conjunction with the exercise and performance of its other powers and duties, to arrange, encourage and facilitate other transactions conducive to the economic well-being of the province.

Order-in-Council No. 2354 reaffirms the following activities requiring the use of working capital:

a) The acquisition of supplies required in the public service of the Province, including public institutions.

b) The establishment, maintenance and operation of depots or warehouses.

c) The disposition of supplies no longer required by government or public institutions.

d) The technical support necessary to ensure that supplies of the most advantageous and suitable type on an economic basis are utilized.

e) In conjunction with the purposes described in paragraphs (a) to (d), the entry into materiel management and supply arrangements conducive to the economic well being of the province.

Finally, Public Sector Purchasing Policy (PSPP) contained in Section 4 of Government Management Operating Policy states: "Its (PSPP) principal aim is supplier development thus enhancing economic growth and job creation opportunities in British Columbia."

3. Government practices

In following the above directives, the Purchasing Commission has developed its own operating policies:

- As far as practical the purchase of supplies and services should be consolidated to increase the purchasing power of government.
- Other government agencies such as municipalities, Crown corporations, school boards, health institutions and colleges may use the facilities of government to increase government's purchasing power, or when the benefit to government exceeds the cost to government.
- Except for reasons of legal liability, goods and services should be acquired from the private sector and not from government sources as long as cost and service are equal.
- Suppliers to government must demonstrate environmental responsibility.

4. Findings and conclusions

a) Purchasing and supplier development

Of the $400 million in purchases made by the PSD, $300 million is mandated (ministries are required to use the Commission). PSD charges no fees for this service. The remaining $100 million are contracted purchases, made at the choice of ministries, Crown corporations and public agencies. PSD gross expenditures are $2.5 million, of which $300,000 are recovered from ministries, Crown corporations and public agencies. We questioned whether government's two major aims (value for money and support for the British Columbia economy) would be better served without a centralized purchasing unit. We concluded that they probably would not. However, the Office of the Comptroller General has counselled the Purchasing Commission to ensure that it does not permit support for the British Columbia economy to supersede the need to obtain value-for-money.

PSD has implemented an aggressive program of service quality and monitors its performance in financial and non-financial terms.

The unit administers a customer satisfaction questionnaire to 10 per cent of its clients. According to responses, the frequency of goods delivered on time varied between 78 per cent and 93 per cent during each of the last nine months. The percentage of products received as specified varied from 96 per cent to 100 per cent. On a scale of 1 to 5, the unit's level of service was ranked between 4.17 and 4.40 during the nine months.

The unit monitors financial savings resulting from its endeavours. These savings result from many sources:

- Negotiating with client and supplier to develop optimum specifications.
- Developing additional suppliers.
- Obtaining higher discounts by combining purchases from more than one client.

Apart from developing suppliers for it's own purchases, the unit identifies and refers British Columbia businesses to ministries, Crown corporations and public agencies for their own direct purchases.

"Environmental leadership" is one of the Purchasing Commission's quality service concepts. PSD plays a prominent role in requiring environmental responsibility on the part of its suppliers.

Praise for the PSD is not unanimous. More than one Crown corporation has reported PSD service to be slower and prices to be higher than they obtain from direct suppliers. However, overall we believe that individual ministries

do not currently possess professional purchasing specialization to the same extent as PSD.

b) Vehicle Management Services

VMS manages the government light vehicle fleet, in excess of 5,000 vehicles. Its major responsibilities are:

- Developing and disseminating government policy on vehicles.
- Fleet planning with clients.
- Vehicle purchasing.
- Ensuring adequate levels of vehicle safety and maintenance (done in the private sector).
- Registering and insuring vehicles.
- Operating the consolidated fuel billing system, saving administration costs and realizing fuel discounts.

The unit proposes to institute a system of consolidated maintenance billing. Private sector suppliers would bill VMS who would rebill users. VMS aims to achieve significant price savings through the establishment of government labour rates.

In recent years satisfaction with VMS has been low. A Vehicle Management Services Review Committee was established in August 1990 to:

- Provide an operational evaluation of the Vehicle Management Services Branch.
- Undertake a review of the existing mandate of the Branch including all customer-related aspects, and recommend possible changes.
- Recommend how to fulfill the suggestion mandate efficiently and effectively.

The committee reported in February 1991. It concluded that the level of customer satisfaction with the Branch was low and made 31 recommendations. VMS has addressed all these recommendations. Management reports that most have been implemented. Some represent ongoing activities.

It is important to separate problems of practice from problems of policy. Older vehicles have higher operating costs, lower utilization, and poorer safety records than newer vehicles. Each year VMS removes from the road about 100 unsafe vehicles that are uneconomical to repair. User dissatisfaction related to age of vehicles is a function of Treasury Board replacement policy.

With regard to activities under the control of VMS, a legitimate question is whether users would be better served if VMS responsibilities were decentralized. Could users achieve better service at the same cost, or the same service at lower cost? Gross expenditures of VMS are $14.5 million, which includes $12.2 million for fuel, recharged to users. The net cost of operating the branch is $2.3 million, equal to approximately $450 per vehicle per year.

We conclude that centralizing responsibility for fleet management provides opportunities for cost minimization. The size of the fleet justifies the employment of fleet management specialists and provides economies of scale that individual ministries, except the largest, would be unable to achieve. Offsetting the cost advantage to some extent are the longer lines of communication which have hindered service in the past.

Improved fleet management service must be obtained. Without conducting a detailed analysis, we believe on balance that it can possibly be achieved more easily by improving the operation of the Branch than by decentralizing responsibility for fleet management.

c) Queen's Printer

The Queen's Printer has the mandated responsibility to provide printing services to the provincial government. Forecast revenues and costs for the Queen's Printer (excluding the Office Products Centre) are approximately $38.6 million. By value, approximately 30 per cent of total requirements are provided in-house, the balance being contracted out to the private sector. These ratios are not mandated but have been adopted by the Purchasing Commission as targets. To the end of November 1991, contracted work amounted to two-thirds of the total. The work done in-house consists primarily of printing for the Legislative Assembly, confidential work and work requiring quick turnaround.

We believe that little opportunity exists for significant increases in the volume of work being provided to the private sector, although the volume of sole-sourced work might be reduced. The question remains whether printing costs would be less if each ministry were allowed to buy its own printing requirements from the private sector. We have no reason to believe that this would be the case. The Print Brokerage Centre in the Queen's Printer employs printing specialists better qualified to obtain printing services than would normally be available in individual ministries.

d) Warehousing and asset investment recovery

The Purchasing Commission is mandated with the responsibility of disposing of surplus government assets. This involves warehousing the assets until they are sold or transferred to another ministry.

The unit operates three warehouses in Victoria and a single warehouse in Surrey. A recent study of surplus disposal by the Office of the Comptroller General identified weaknesses in asset records and in the physical security of assets. Management states that the issues raised by the Office of the Comptroller General have been addressed.

The function of warehousing and disposal of assets must be carried out securely and with integrity. Present legislation aside, the responsibility can be exercised in a centralized or decentralized fashion. Centralization of responsibility has been selected for the following reasons:

- Consolidated warehousing is generally cheaper than distributed warehousing.
- The disposal of large quantities of assets frequently attracts more attention than piecemeal disposal.
- The centralizing of surplus assets facilitates the transfer of assets to ministries who can use them.

WAIR expenses and recoveries are budgeted at $4.4 million for a breakeven result. At present, ministries are allowed a credit if they replace an asset disposed of in the same year. However, until recoveries from all asset disposals can be passed on to the relevant ministries, the Asset Investment Recovery operation can be expected to generate surpluses. We believe that significantly higher surpluses could be realized if ministries could see a financial benefit from disposing of surplus assets. Present government policy returns all recoveries, other than for replacement assets, to the Consolidated Revenue Fund. This restricts ministries' incentives to dispose of surplus assets.

e) Government Air Services

The primary function of the six jet aircraft operated by Government Air Services is to provide air ambulance service to the Ministry of Health. Other services are passenger flights for Cabinet Ministers, MLAs, and government employees. The aircraft are also used for the Provincial Emergency Program. The total costs of GAS are $8.5 million against which recoveries of $800,000 are earned from passenger fares and air charter commissions. GAS also charters rotary wing and propeller aircraft from the private sector for ministries.

We understand that GAS costs for jet ambulance service are 37 per cent lower than those of the only private sector operator in British Columbia. We also understand that charter rates negotiated by GAS on behalf of the provincial government are 30 per cent below regular charter fees. At issue is whether service and/or costs could be improved if GAS operated no aircraft and if individual government ministries used commercial flights and arranged charters directly, when necessary.

Air ambulance costs provided by GAS are 30 per cent cheaper than charter fares from the only provincial private operator. In a normal month the service carries 150-170 patients. The Ministry of Health reports that Emergency Health Service employees prefer flying with GAS because of the quality of equipment and professionalism of the staff. However, Ministry staff claim that GAS cannot provide all the air ambulance hours they would like to use. GAS provided 57 per cent of jet air ambulance miles and 70 per cent of hours for the first six months of 1991/92. The balance was chartered from Canadian Lear because GAS aircraft were in use, or because the ministries' requirements were outside GAS flying windows. Canadian Lear flies 24 hours per day while GAS does not dispatch requests for new ambulance flights after 6:00 p.m. (although aircraft operate on a normal basis to 9:00 p.m.). GAS intends to address this issue by dedicating a third aircraft to ambulance service next year. This will provide 50 per cent more capacity. The remaining issue of night flight should be discussed between GAS and the Ministry to evaluate the need, costs and benefits of this extended service.

Passenger services lie in third priority after other emergency flights which are required irregularly and infrequently. Passenger service is popular with government members and employees. Ministries and other Crown bodies using passenger flights are charged fees 10 per cent less than commercial fares. GAS has proposed to Cabinet to improve the utilization of the fleet through enhanced government passenger travel, although it is not certain whether this will be cost-effective.

As long as government must bear aircraft ownership costs for ambulance and emergency reasons, and as long as recoveries from passenger traffic exceed the variable costs of the flight, additional passenger traffic will reduce total GAS costs.

In summary, GAS exists primarily to provide guaranteed air ambulance and emergency response services on a 24-hours per day/7-days per week availability. The operating costs of this service are budgeted at $7.6 million per year. At market rates, last year's fleet usage of 4,200 hours would cost government over $9.6 million. If government did not operate the fleet and a second private sector competitor entered the market, prices would likely drop. However, the size of saving is speculative and service improvement debatable. Without conducting further rigorous analysis, we believe the existence of GAS is justified.

f) Postal and distribution services

Postal and Distribution Services prepare each year approximately 36 million pieces of mail and distributes 60 million pieces. Revenues and costs are budgeted at $23.6 million. Use of PDS is voluntary. The plant is professionally equipped and operated and conforms to all Canada Post's requirements for minimizing mail costs. The fee charged by PDS for delivery of a regular letter is 1¢ less than Canada Post charges. PDS achieves savings by bulking mail and transporting it as freight.

In summary, we believe that PDS provides value for money.

g) Office Products Centre

The OPC acts as a wholesaler for commonly ordered stationery items. OPC also buys bulk supplies for direct shipment to customers. Sales for 1991/92 are budgeted at $10 million. Purchases are marked up to provide a margin sufficient to cover operating expenses. Sales for the year to date are below budget and OPC is aggressively marketing its services to municipalities and to other government-funded agencies. Use of OPC is not mandated for ministries. The Centre offers a price guarantee since the staff regularly review catalogues and flyers from wholesale stationers. The OPC issues its own catalogues with a price guarantee.

As well as reporting performance in financial terms, the OPC has set standards and reports progress for some non-financial targets. The OPC has a target that 99 per cent of orders shall be processed within 48 hours. Actual performance is not listed on the monthly performance report. The target line item fill rate is 97%. Cumulative performance at the end of November was 96.5 per cent. The maximum number of line items affected by back orders was targeted at 1,200. At the end of November OPC reported 1,095 line items affected by back order. Other non-financial performance should be reported, but is not. These include the following performance indicators recommended by the Government Warehousing Review Committee:

- Turnaround time
- Inventory turns
- Inventory value
- Number of picks and receipts
- Cost per inventory pick
- Picks per man-day
- Carrying costs

Although revenue is below budget, expenses are correspondingly reduced and cumulative profit is on target.

In the light of the customer service emphasis, the price guarantee and the voluntary nature of its sales, we believe the OPC offers value for money.

h) Product Distribution Centre

The Product Distribution Centre was created from the consolidation of Ministry of Health facilities in Victoria, Prince George, Kamloops, Richmond, and Riverview, as recommended by the Government Warehousing Review Action Group in a January 1988 report. A subsequent report of the Group in November 1989 recommended that the procurement, storage and distribution of uniforms for various ministries be coordinated by the Purchasing Commission.

The PDC in Coquitlam occupies some 47,000 square feet of space, employs 40 permanent staff plus 6 auxiliary as and when required, and can easily handle a $20 million turnover. Sales volume for the current year is expected to reach $11.6 million. Operating costs are $3.4 million this year, budgeted to decrease by 3 per cent to $3.29 million next year. According to the financial statements, the present gross margin for the eight months to November 30, 1992 is 16.6 per cent which implies a breakeven volume this year of some $20 million. However, data from the present management information system are suspect and management estimates a margin of 19.5 per cent for calendar year 1991. Management wishes to improve the margin to 25 per cent but this, combined with increased volumes, will be difficult to achieve. The PDC is working towards, but is not yet able to offer, the same price guarantee as does the OPC.

Management information from the PDC is less satisfactory than from the OPC. However, the OPC management accounting and reporting system is intended to be installed in the PDC in the current year, thereby improving management information.

PDC management hopes to achieve increased sales volumes from several sources:

- Federal government institutions as a result of a reported federal policy to increase purchases of British Columbia products.

- Hospitals: the Western Interprovincial Network is a coordinating body of health services in British Columbia, Alberta and Saskatchewan. The Director is encouraging hospitals to use the PDC and suggests that similar organizations be set up in Alberta and Saskatchewan.

- Municipalities, particularly uniforms to fire departments.
- At-home care.
- Continuing care homes.
- Corrections Branch.
- Various school boards.

Clearly, the performance of the PDC is unsatisfactory, but some improvements have been achieved. The PDC reduced operating losses from approximately $3 million in 1990/91 to a forecast $1 million in 1991/92 at a time when provincial ministry budgets were cut 7 per cent and other customers faced restraints. Latest projections for 1992/93 show sales of $15.2 million at a margin of 20.4 per cent, expenses reduced to $3.3 million, resulting in a loss of $0.2 million. This is an ambitious target bearing in mind that PDC sales are very sensitive to public sector restraint policies. While we expect improvements, we cannot endorse these projections. However, the question arises whether the alternative, that of each ministry and other public institution carrying out its own procurement, would be an improvement. The Government Warehousing Review Action Group recognized the inherent inefficiency of multiple warehouses. If the PDC were closed, other ministries would be forced to acquire individual inventories. Prices, purchasing costs, storage and inventory holding costs may increase, although this has not been sufficiently tested.

We believe that the options open to government should be reviewed, including:

- Steps that could be taken to reduce costs (e.g., subletting space).
- Cost increases and savings if purchasing and inventories were again decentralized.

In the meantime, we recommend the provision of more management information, once the new system has been installed. This would include regular monitoring of the performance indicators recommended by the Government Warehousing Review Action Group and listed above for the OPC.

In summary, although we do not recommend the immediate closure of the PDC, government needs to quickly assure itself that despite the poor performance, the results are better than any alternative. Otherwise the PDC should be closed.

5. Recommendations

At issue is whether the provision of a central purchasing body to provide government-wide goods and supplies has led to an efficient and effective delivery mechanism. In the view of Purchasing Commission management it has done so. However, there are sufficient examples of concern expressed by client ministries and by other central agencies, as well as some examples of inefficiency, to suggest that service in all areas is not optimal and that government is not necessarily obtaining adequate value for money. We believe that strategies for the Purchasing Commission should concentrate on operating commercially-oriented activities in a commercial fashion, and on minimizing costs.

Present government financial systems are not designed to provide or encourage sound operating business decisions. For this reason we support the creation of a Special Operating Agency (SOA) for the Purchasing Commission's commercial activities. An SOA would enable management to control the business by measuring results and performance, rather than by measuring and controlling cost inputs. Financial accounts would be prepared according to generally accepted accounting principles, producing balance sheets and income statements in a form suitable for decision making.

In the meantime, we recommend certain short-term actions to help management minimize costs of Purchasing Commission activities:

- **Purchasing and Supplier Development**—In line with the comments of the Office of the Comptroller General, procedures should not place support for the British Columbia economy ahead of the need to obtain value for money.

- **Vehicle Management Services**—Thoroughly evaluate the costs and benefits before implementing centralized billing for vehicle maintenance.

- **Queen's Printer**—Minimize sole-sourced purchases from the private sector.

- **Warehousing and Asset Investment Recovery**—Continue working with the Department of Finance to implement policies allowing ministries to share in revenues from the disposal of surplus assets.

- **Government Air Services**—Develop an implementation system for enhancing revenues from the passenger transport of government employees. Evaluate the results after a fair trial to ensure that additional revenues do in fact exceed direct or incremental costs.

- **Office Products Centre**—Improve the detail of management information presented monthly, to include reports on inventory turnover, order processing time, contribution margins, picking rates and costs.

- **Product Distribution Centre**—Improve management information, as recommended for OPC and study cost reduction possibilities and the implications of decentralizing purchasing and warehousing. Conduct a thorough review of its activities and of alternative ways of providing these supplies.

The activity of greatest concern is the Product Distribution Centre. We believe that achieving a breakeven result is unlikely, even under an SOA. This result may be unavoidable, but all possible alternatives should be studied.

E. Conclusion

Our overall conclusion is that the claims of savings and efficiencies made about BCBC, BCSC and the Purchasing Commission cannot be verified at this time, because the comparative cost data are incomplete and the provincial benchmarks by which performance could be judged are not well developed.

A strong central capacity to develop and enforce overall strategies, priorities and performance standards on space allocation, information systems services, communication links, and government-wide purchasing is required. BCBC, BCSC and the Purchasing Commission should be seen as suppliers only, having no direct role in influencing needs definitions but operating within a clear policy framework that has a strategic and continuing influence on the ministries' formulation of their requirements. This framework should set standards for efficiency and effectiveness and be vigorously enforced. If this cannot be done, ministries should be freed to obtain services, supplies and equipment at the lowest cost from any available supplier.